

CASE

NUMBER:

99-063

INDEX FOR CASE: 99-063
NORTH CENTRAL TELEPHONE COOPERATIVE, INC.
Tariffs
INTRODUCES AN OPTIONAL CALLING PLAN

IN THE MATTER OF NORTH CENTRAL TELEPHONE COOPERATIVE, INC.
FOR AN OPTIONAL CALLING PLAN

SEQ NER	ENTRY DATE	REMARKS
0001	02/08/99	Application.
0002	02/22/99	Acknowledgement letter..
0003	03/09/99	FINAL ORDER; APPROVES PROPOSED TARIFF TO IMPLEMENT NORTH CENTRAL'S OCP



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

CERTIFICATE OF SERVICE

RE: Case No. 99-063
NORTH CENTRAL TELEPHONE COOPERATIVE, INC.

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on March 9, 1999.

Parties of Record:

F. Thomas Rowland
Executive V.P./General Manager
North Central Telephone
Cooperative, Inc.
872 Highway 52 By-Pass
P. O. Box 70
Lafayette, TN. 37083 0070

Stephanie Bell

Secretary of the Commission

SB/sa
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF NORTH CENTRAL)
TELEPHONE COOPERATIVE, INC.)
TO PROVIDE AN OPTIONAL CALLING) CASE NO. 99-063
PLAN)

O R D E R

On February 4, 1999, North Central Telephone Cooperative, Inc. ("North Central") filed new pages in its General Subscriber Services Tariff. The purpose of the filing is to seek approval for the provision of an optional calling plan ("OCP").

The OCP enables customers to call any location in the expanded local calling area for a monthly charge of \$5.00 in addition to the basic local exchange rate. Customers not selecting the OCP will continue to be charged for calls to that area at tariffed toll rates.

The Commission has had a long-standing practice of approving expanded calling plans of this nature when certain conditions are met. First, the plans must encompass a community of interest and there must be adequate customer demand for the service. Second, the pricing of the service must be such that it is revenue neutral and does not affect the rest of the general subscribership through revenue shortfalls or excessive profits to the utility.¹

¹ Administrative Case No. 285, An Investigation Into the Economic Feasibility of Providing Local Measured Service Telephone Rates in Kentucky, Order dated October 25, 1990.

North Central states that the expanded calling area in the affected exchanges reflects their communities of interest and there is significant demand from those customers. North Central's proposed tariff for the OCP contains rates that have been designed to be revenue neutral based on the expected stimulation of demand. The Commission will require North Central to file a report on its actual results for the first 12 months and, if necessary, the OCP rates will be changed to ensure revenue neutrality. In addition, the Commission finds that North Central should adhere to the guidelines discussed in Case No. 91-250.²

Thus, the Commission finds that the proposed tariff should be approved.

IT IS THEREFORE ORDERED that:

1. North Central's proposed tariff to implement its OCP is approved for service rendered on or after the effective date of the tariffs filed.
2. North Central shall gather 12 months of company-specific data as necessary to demonstrate the reasonableness and accuracy of its forecasts for its OCP. North Central shall file this information with the Commission by June 30, 2000. North Central shall also submit any proposed changes to the OCP rates to bring the OCP into compliance with the Commission objective of revenue neutrality.

² Case No. 91-250, South Central Bell Telephone Company's Proposed Area Calling Service Tariff, Order dated April 9, 1992.

Done at Frankfort, Kentucky, this 9th day of March, 1999.

By the Commission

ATTEST:


Executive Director



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

February 22, 1999

F. Thomas Rowland
Executive V.P./General Manager
North Central Telephone
Cooperative, Inc.
872 Highway 52 By-Pass
P. O. Box 70
Lafayette, TN. 37083 0070

RE: Case No. 99-063
NORTH CENTRAL TELEPHONE COOPERATIVE, INC.
(Tariffs) REVISIONS TO TARIFF NO. 2

This letter is to acknowledge receipt of initial application in the above case. The application was date-stamped received February 8, 1999 and has been assigned Case No. 99-063. In all future correspondence or filings in connection with this case, please reference the above case number.

If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/jc

T60-146

RECEIVED

FEB 8 1999

PUBLIC SERVICE
COMMISSION



February 4, 1999

VIA FEDERAL EXPRESS

Helen Helton, Executive Director
Public Service Commission of the Commonwealth of Kentucky
730 Schenkel Lane
PO Box 615
Frankfort, KY 40602-0615

Case 99-063

RE: North Central Telephone Cooperative, Inc. Tariff PSC No. 2

Dear Ms. Helton:

Enclosed for filing are one original and four copies of revisions to North Central Telephone Cooperative, Inc. Tariff PSC No. 2.

With this filing, North Central Telephone introduces an optional calling plan to its Scottsville exchange customers for calling between that exchange and the Fountain Run, Gamaliel, and Lucas Exchanges. As shown in the documentation and accompanying support materials, the plan is expected to have a minimal impact on the company's revenues.

The company is providing this plan in response to customer demand. This plan is optional and will have no impact on customers who choose not to participate.

If there are any questions concerning this filing, please call me.

Sincerely,

F. Thomas Rowland
Executive V.P./General Manager

Enclosure

872 Hwy. 82 Bypass East
P.O. Box 78
Lafayette TN 37088-0078
Phone: 615-666-2161

1574 Old Gallatin Road
P.O. Box 88
Scottsville KY 42164
Phone: 502-822-7000

North Central Telephone Cooperative Description and Justification

Background

North Central Telephone Cooperative serves 4500 access lines in two exchanges in Kentucky. Scottsville, is adjacent to the Fountain Run exchange served by South Central Rural Telephone Cooperative. Calls from North Central's customers in Scottsville are toll to the Fountain Run and surrounding area exchanges of Gamaliel and Lucas. While the reverse is also true - South Central Rural's customers in those exchanges also pay toll charges to Scottsville - South Central Rural provides its customers with an optional extended EAS plan that allows its customers to avoid toll charges over these routes for a flat charge per month.

This disparity in toll rates has resulted in continuing inquiries and complaints from North Central's Scottsville customers who wish the same toll option as that offered in South Central Rural's serving area. While the company recognizes that it may have small losses because of the plan, implementation of this plan will allow the company to remain responsive to its customer needs and meet customer demand.

Proposal

The Company proposes to introduce an optional calling plan to its Scottsville exchange customers that would permit them to purchase extended area calling for \$5.00 per month. Customers choosing this plan will receive unlimited flat-rate calling to the Fountain Run and surrounding exchanges.

To provide this service, the company proposes to use its dedicated trunks between the company's and South Central Rural's central offices. Customers choosing this service will be routed directly to the exchanges over this trunk group avoiding intraLATA carrier charges. The company will provide South Central Rural a monthly access statement and remit intraLATA access revenue to South Central Rural for calls terminated to the Fountain Run exchanges.

Demand

The company plans to inform its customers of the availability of this plan through a directed bill message and newspaper advertisement as soon as practical following approval of its tariff. The company anticipates that the plan will be extremely attractive to its end user customers who make toll calls to the Fountain Run exchange. It is expected that nearly 20% of the customers making such calls will choose to participate. In addition, it is anticipated that approximately 2% of the customers making little or no toll calling will also purchase this service.

It is anticipated that the virtually all customers in the "high use" category will purchase the plan in addition to approximately 5% of customers spending less than the monthly fee for this service.

**North Central Telephone Cooperative
Description and Justification**

Cost Support

To offer this service the company will forgo access revenues and some billing and collection revenues usually collected from its intraLATA toll providers over the route in question. In addition, the company will remit to South Central Rural Telephone Company intraLATA access charges associated with this traffic¹. The average cost of access and billing and collection (stated as loss revenue plus terminating access to South Central Rural) is 17.9 cents per minute for its current traffic between the two exchanges.

The plan is expected to increase calling between the two exchanges. Since the company has not historically collected access or billing and collections revenues from the intraLATA carriers on this new demand, however, the marginal cost for the increased traffic is only the terminating access paid to South Central Rural or 8.72 cents per minute.

To determine the net monthly impact of this plan, the company stratified its calling base to reflect usage thresholds of its customers in an average month.² Demand stimulation was applied to each volume level reflective of likely stimulation to determine an anticipated cost (stated as lost revenues plus actual charges) for each customer segment. Similarly, penetration levels per access line were applied to determine the monthly revenue to be earned by the company from its monthly fee for the service.

In order to prevent its customers from manipulating the plan to reflect unusual calling, the company will assess its applicable service installation charge, similar to that charged for the addition of calling features, to its customers who enroll in the plan. There will be no charge for cancellation of the service.

In estimating its usage-variable expenses for the plan, the company reflected demand stimulation at the various usage levels for potential plan customers. Review of available demand data suggests that stimulation will be less for high-usage customers who are historically less price sensitive and greater for low volume users.

The company estimates that its monthly revenue for the service will be near or slightly less than its monthly expenses for the service. Because the company further expects that its initial penetration levels will be high volume users, its is expected that early margins will be more negative but will level off to a minimal amount (less than \$100 per month) as the service matures.

A three-year forecast by quarter is shown in Exhibit A of this documentation.

¹ This assumes that during the three-year period of this forecast state access charges, particularly the NTSR, remain at current levels.

² As expected, 20% of the customers making toll calls generate nearly 80% of the calls between the two exchanges.

**North Central Telephone
 Scottsville to Fountain Run Expanded EAS
 Three Year Forecast, By Quarter**

	2Q99	3Q99	4Q99	1Q00
Number of Customers	5	9	62	115
Revenue				
Service Order Charges	\$ 50.00	\$ 40.00	\$ 530.00	\$ 530.00
Monthly Fees	\$ 75.00	\$ 135.00	\$ 930.00	\$1,725.00
Total Revenue	\$ 125.00	\$ 175.00	\$1,460.00	\$2,255.00
Expenses (assumes no access charge reduction)				
Usage Expense	\$ 866.91	\$ 1,281.24	\$1,281.24	\$1,281.24
Advertising Expense	\$ -	\$ 300.00	\$ -	\$ -
Total Expenses	\$ 866.91	\$ 1,581.24	\$1,281.24	\$1,281.24
Net Margin	\$ (741.91)	\$(1,406.24)	\$ 178.76	\$ 973.76

	2Q00	3Q00	4Q00	1Q01
Number of Customers	168	221	221	221
Revenue				
Service Order Charges	\$ 530.00	\$ 530.00	\$ -	\$ -
Monthly Fees	\$2,520.00	\$ 3,315.00	\$3,315.00	\$3,315.00
Total Revenue	\$3,050.00	\$ 3,845.00	\$3,315.00	\$3,315.00
Expenses (assumes no access charge reduction)				
Usage Expense	\$1,281.24	\$ 3,437.06	\$3,437.06	\$3,437.06
Advertising Expense	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$1,281.24	\$ 3,437.06	\$3,437.06	\$3,437.06
Net Margin	\$1,768.76	\$ 407.94	\$ (122.06)	\$ (122.06)

	2Q01	3Q01	4Q01	1Q02
Number of Customers	228	235	243	251
Revenue				
Service Order Charges	\$ 70.00	\$ 70.00	\$ 80.00	\$ 80.00
Monthly Fees	\$3,420.00	\$ 3,525.00	\$3,645.00	\$3,765.00
Total Revenue	\$3,490.00	\$ 3,595.00	\$3,725.00	\$3,845.00
Expenses (assumes no access charge reduction)				
Usage Expense	\$3,541.00	\$ 3,648.00	\$3,758.00	\$3,871.00
Advertising Expense	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$3,541.00	\$ 3,648.00	\$3,758.00	\$3,871.00
Net Margin	\$ (51.00)	\$ (53.00)	\$ (33.00)	\$ (26.00)

GENERAL SUBSCRIBER SERVICES TARIFF

North Central Telephone Cooperative
Incorporated

PSC 2
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15th Revised Sheet 3

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(R)

Issued: March 1, 1999

By: 

Effective: April 1, 1999

Executive V.P./ Gen. Manager

GENERAL SUBSCRIBER SERVICES TARIFF

North Central Telephone Cooperative
Incorporated

PSC 2
Section W
Original Sheet 1
1st Revised Sheet 1

OPTIONAL CALLING PLAN

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Issued: March 1, 1999

By: 

Effective: April 1, 1999

Executive V.P./ Gen. Manager

GENERAL SUBSCRIBER SERVICES TARIFF

North Central Telephone Cooperative
Incorporated

PSC 2
Section W
Original Sheet 2
1st Revised Sheet 2

OPTIONAL CALLING PLAN

W.1 Application of Tariff

W.1.1

This tariff applies to optional calling plans presently available to members of the North Central Telephone Cooperative, Incorporated or as may be modified or added to at a future date.

W.2 Description of Service

W.2.1 Optional Calling Plans are specifically designed toll plans applicable to intra-state subscriber dialed station-to-station sent paid toll messages placed from the Optional Calling Plan Telephone during the service period to stations in the prescribed terminating exchange, exchanges or area. All other Toll messages will be billed as regular toll messages.

W.3 Concurrence

W.3.1 North Central Telephone Cooperative, Incorporated concurs in the Optional calling Plan rates rules, and regulations governing such communications as filed by South Central Bell Telephone Company, together and makes itself a party to such rates and charges until this concurrence is revoked or cancelled by either party. North Central Telephone Cooperative Incorporated hereby expressly reserves the right to cancel this statement of concurrence at any time when it appears that such cancellation is in the best interest of North Central Telephone Cooperative Incorporated, subject to the jurisdiction of the Kentucky Public Service Commission as it applies.

W.4 Scottsville/South Central Rural Calling Plan

W.4.1 General

1. North Central plans to introduce an optional calling plan to its Scottsville exchange (502-618 and 502-622) customers that will enable customers choosing this plan to receive flat-rate calling to the Fountain Run (502-434), Gamaliel (502-457) and Lucas (502-646) exchanges.

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N

Issued: March 1, 1999

Effective: April 1, 1999

By: 

Executive V.P./ Gen. Manager

GENERAL SUBSCRIBER SERVICES TARIFF

North Central Telephone Cooperative
Incorporated

PSC 2
Section W
Original Sheet 3

W.4.1 General (Cont'd)

2. To provide this service, North Central will use a trunk group between its facilities and South Central Rural's central office. Customers choosing this service will be routed directly to the exchanges over this trunk group avoiding intraLATA carrier charges. The company will provide South Central Rural a monthly access statement and remit intraLATA access revenue to South Central Rural for calls terminated to the previously mentioned exchanges.

W.4.2 REGULATIONS AND LIMITATIONS OF SERVICE

1. The regulations set forth herein apply to service and facilities furnished within the State of Kentucky by North Central Telephone Cooperative.
2. The services are provided subject to the availability of facilities and technical limitations and limited to the company's central offices specifically equipped to provide such service.

W.4.3 RATES AND CHARGES

1. Installation and Non-Recurring and Monthly Recurring Charges

	<u>Installation Non-Recurring Charge</u>	<u>Monthly Recurring Charge</u>
A. Scottsville/South Central Rural Calling Plan	\$ 10.00	\$ 5.00

Issued: March 1, 1999

By: 

Effective: April 1, 1999

Executive V.P./ Gen. Manager

N

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